

INTRODUCTION

- [1] This decision determines an application filed with the Residential Tenancy Office (the “Rental Office”) under the *Residential Tenancy Act* (the “Act”).
- [2] The Landlords seek a 5.0% rent increase for the Unit, which is an additional 3.0% above the 2026 annual allowable guideline of 2.0%.

DISPOSITION

- [3] The evidence supports a 5.0% rent increase for the Unit effective February 1, 2026.

BACKGROUND

- [4] The Unit is located in a four-unit building (the “Residential Property”) that the Landlords purchased in 2014.
- [5] On October 29, 2025, the Landlords served the Tenant with a *Form 8 Notice of Annual Allowable Rent Increase* and with a *Form 9 Landlord Application to Request Additional Rent Increase* (the “Application”).
- [6] On October 30, 2025, the Landlords filed the Application with the Rental Office.
- [7] The Application seeks a 5.0% rent increase for the Unit, effective February 1, 2026.
- [8] The Application requests an additional rent increase as follows:

Current Rent	Proposed Rent
\$1,224.00	\$1,285.00

- [9] On November 19, 2025, the Rental Office sent the parties notice of a teleconference hearing scheduled for January 8, 2026.
- [10] On December 12, 2025, the Landlords provided the Rental Office with a *Form 10 Landlord Statement of Income and Expenses* (the “Statement”).
- [11] On December 12, 2025, the Rental Office sent the parties a 59-page PDF evidence package.
- [12] On January 8, 2026, the Landlords’ representative (the “Representative”) participated in a teleconference hearing. The Representative stated that he received a copy of the evidence package and that everything he submitted to the Rental Office was included. The Tenant did not participate in the teleconference hearing or submit any documentary evidence.
- [13] After the hearing, the Representative provided additional evidence to the Rental Office, which was shared with the Tenant. The Tenant provided no additional submissions.

ISSUE

- A. Does the evidence support a 5.0% rent increase for the Unit?

ANALYSIS

Additional Rent Increase – Factors to Consider

- [14] The Landlords have the onus of proving, on a balance of probabilities, that the evidence supports an additional rent increase. This means that there must be sufficiently clear and convincing evidence to support the Landlords' additional rent increase request.
- [15] To determine the Application, I must consider the following factors in subsection 50(3) of the Act, which are as follows:
1. The rent history for the affected Unit in the three years preceding the date of the Application;
 2. A change in operating expenses and capital expenditures in the three years preceding the date of the Application that the Director considers relevant and reasonable;
 3. The expectation of the Landlords to have a reasonable return on their capital investment; and
 4. The expectation of the Tenant that rent increases will remain within the annual guideline.
- [16] Subsection 50(4) states that I also have the discretion to consider any factor prescribed in the *Residential Tenancy Regulations* (the "Regulations"). The Regulations state that I may also consider that the purchase of a residential property should not require an increase in rent within the first year in order to achieve a reasonable return on the landlord's capital investment. I find that this factor is not relevant because the Landlords purchased the Residential Property in 2014.

Clause 50(3)(a) – rent history for the affected rental unit

- [17] Clause 50(3)(a) requires that I consider the rent history for the affected Unit in the three years preceding the date of the Application.
- [18] In 2023, the allowable rent increase was 0.0%.
- [19] On January 1, 2024, the Unit's rent was increased by 6.0% under Rental Office Order LD23-586.
- [20] On February 1, 2025, the Unit's rent was increased by 5.3% under Rental Office Order LD24-665.

Clause 50(3)(b) – change in operating expenses and capital expenditures

- [21] Clause 50(3)(b) requires that I consider a change in operating expenses and capital expenditures in the three years preceding the date of the Application that I consider to be relevant and reasonable. The Landlords provided the operating expenses for the past three years in the Statement. The Landlords' overall operating expenses have increased over the past three years. There is no mortgage on the Residential Property.
- [22] Some of the Landlords' expenses nominally increased over the past year or will increase in the coming year, including water/sewer, property taxes, IWMC fees, maintenance, capital expenditures, and other expenses (snow removal and lawn care).
- [23] Some of the Landlords' expenses have decreased or remained the same over the past year, or will decrease or remain the same in the coming year, including fuel, insurance, and property management fees.
- [24] The Landlords' capital expenditures expense is \$541.87 per year, for a roof replacement in 2025 with a 10-year life expectancy. This equals \$21,674.63 for the Residential Property and \$5,418.66 for the Unit.

- [25] The Landlords also repaired the driveway in 2019, at an expense of \$5,750.00 for the Residential Property and \$1,150.00 for the Unit (\$287.50 yearly). However, as the Representative stated, the life expectancy was only five years; this capital expense has not been claimed after 2024. However, I note that this capital expenditure was a valid expense in the three years preceding the date of the Application.
- [26] Each of the claimed expenses was supported by testimony and documentary evidence, including statements, invoices, and spreadsheets, to corroborate the amounts. Most of the Landlords' documentary evidence, except for the fuel expenses, details the expenses for the Residential Property and is divided by 4 to calculate the Unit's expenses. The fuel expenses are the Unit's exact expenses, as each Unit has its own separate heating system.
- [27] Other than the adjustments below, I accept the Landlords' evidence regarding the Statement. The Statement is detailed in Appendix "A".

Adjustments to the Statement

- [28] The adjustments to the Statement are as follows:
- a. Line 10 (Insurance): The Landlords claimed \$460.50 for the Insurance expense. The documentary evidence establishes that the Landlords' Insurance expense decreased to \$430.00 in 2025-2026. This line is adjusted for the Landlords' proposed calculated expenses.
 - b. Line 14 (Property management fees):

Subsection 1(c) of the Regulations states that management fee means "*the actual cost of the management fee or 5 per cent of the gross rental income for the previous year, whichever is the lesser.*"

The Landlords claimed \$1,500.00 in property management fees for the Unit, which is \$6,000.00 for the Residential Property. The Representative stated that this is the actual cost charged by the Landlords' third-party property management company, and he provided documentary evidence to establish this expense.

Despite the Landlords' actual cost being approximately 10.0% of the Unit's gross rental income. The Act and Regulations permit a cap of 5.0%. I have adjusted Line 14 to \$657.96 for the current expenses and to \$731.30 for the proposed calculated expenses.

Clause 50(3)(c) – reasonable return on the Landlords' capital investment

- [29] Clause 50(3)(c) requires that I consider the Landlords' expectation to have a reasonable return on their capital investment.
- [30] To determine the Landlords' return on investment ("ROI"), I must first determine the value of the Landlords' capital investment.

Value of Capital Investment

- [31] In Order LR25-31, the Island Regulatory and Appeals Commission (the "Commission") commented on the method and evidence required to determine the value of a landlord's capital investment as follows:

[37] In our opinion, the goal when determining the value of the landlord's investment is to arrive at a valuation that is both accurate and reasonable in the circumstances. A key factor in that determination is for the Commission to interpret what is meant by the term "capital investment", as used in clause 50(3)(c). In our opinion, a capital investment is just that – the landlord's investment in capital, which includes both the land and building (i.e. real property) ...

[38] ... valuing a landlord's capital investment will be on a case by case basis, with the goal being to ascertain the actual fair market value of the capital asset as accurately as reasonably possible based upon the evidence brought forward to the hearing officer or panel...

[50] In summary, the Commission finds that the value of capital investment used to calculate a landlord's return on investment should be the full value of the landlord's capital investment (being the real property) and should not be subject to a deduction of the outstanding mortgage principal."

[32] In 2014, the Landlords purchased the Residential Property for \$455,000.00. As of March 31, 2025, the Residential Property had a tax assessed value of \$546,400.00, which equals \$136,625.00 for the Unit (one-quarter). The Landlords do not have an appraisal for the Residential Property or the Unit.

[33] As stated in Order LR25-31, valuing a landlord's capital investment will be done on a case-by-case basis. In this case, I find that the evidence supports the conclusion that the Unit's value should be based on the 2025 tax-assessed value of \$136,625.00. I note that this is a conservative value of the Unit, as the tax-assessed value of a unit is frequently lower than its actual value.

Reasonable Return on Investment

[34] In Order LR25-31, the Commission commented regarding a landlord's ROI:

"[53] ... Where we have accepted that mortgage principal should not be deducted from the value of the landlord's investment, we recognize that there should be some kind of "normalizing" in respect of how landlords choose to fund their investments. Therefore, we find that when calculating a landlord's ROI, the financing costs of interest on mortgages registered against the property should not be included in the "annual operating expenses..."

[60] ... based on previous Commission Orders, landlords are entitled to a ROI of at least 4% and, on a case by case basis, landlords may justify that a ROI of up to 7% is reasonable, based on the specific circumstances.

[61] Additionally, it is always open to landlords on additional rent increase applications to bring forward professional evidence and challenge the accepted ROI guideline, but the upper limit of 7% should not be adjusted further upward unless satisfactory professional evidence is provided."

[35] Based on the Unit's value of \$136,625.00, the Landlords' ROI is currently 5.1%.

[36] After including the 2026 annual allowable rent increase of 2.0% and the maximum additional rent increase of 3.0%, the Landlords' ROI would increase to 5.3%. This is within the 4.0% to 7.0% range for a reasonable ROI.

[37] As the Unit's tax-assessed value is a conservative valuation of the Unit, a reasonable ROI is closer to the 7.0% end of the range. Therefore, I find that a 5.3% return on investment is supported in this case, based on the Landlords' specific circumstances.

Clause 50(3)(d) – expectation of tenants regarding the annual guideline

- [38] Clause 50(3)(d) requires that I consider the Tenant’s expectation that rent increases will remain within the annual guideline. In 2026, the annual guideline increase is 2.0%.
- [39] The Tenant did not participate in the hearing and did not submit evidence that suggested their expectation in determining the Application.

Weighing the Factors

- [40] After considering and weighing all factors and evidence, I find that the evidence supports a 5.0% rent increase for the Unit effective February 1, 2026.
- [41] The Landlords’ overall operating expenses have increased, although nominally, over the past three years. Additionally, the Landlords’ taxes, IWMC expense, and insurance will increase in the coming year. Furthermore, the Landlords made capital investments in the Unit in 2025, namely a roof replacement, totalling \$5,418.66.
- [42] As the Unit's tax-assessed value is a conservative valuation of the Unit, I find that a 5.3% return on investment is supported in these specific circumstances. I note that if the Landlords provided an appraisal that more accurately reflected the Unit’s value, the Landlords’ ROI would likely be lower than 5.3%. However, the Landlords did not have an appraisal to submit into evidence.
- [43] Furthermore, the Tenant provided no evidence stating that he was disputing the Application.
- [44] Despite the Landlords increasing the Unit’s rent by 6.0% in 2024 and 5.3% in 2025, I find that, in this case, this factor does not sufficiently outweigh the other factors supporting the additional rent increase. After considering and weighing all the factors and evidence, I find that the Application is allowed.
- [45] **This decision contains sensitive information, and the parties are required to preserve its confidentiality under subsection 75(3) of the Act.**

IT IS THEREFORE ORDERED THAT

1. Effective February 1, 2026, the maximum allowable rent for the Unit is \$1,285.00.

DATED at Charlottetown, Prince Edward Island, this 16th day of January, 2026.

(sgd.) Mitch King

Mitch King
Residential Tenancy Officer

APPENDIX "A"
Revised Statement of Income & Expenses (Form 10)

	Current ROI 5.1%	2026 ROI 5.3%	Established Expenses
Income (Yearly)			
Rental income at 100% occupancy (Line 1)	\$14,626.00	\$15,420.00	
Other income (Line 2)	\$0.00	\$0.00	
Less vacancy / Arrears loss (Line 3)	\$0.00	\$0.00	
Net Income (Line 4)	\$14,626.00	\$15,420.00	
Expenses (Yearly)			
Interest payments on first mortgage (Line 5)	\$0.00	\$0.00	\$0.00
Interest payments on second mortgage (Line 6)	\$0.00	\$0.00	\$0.00
Fuel (Line 7)	\$2,370.93	\$2,370.93	\$2,370.93
Water/Sewerage (Line 8)	\$266.77	\$266.77	\$266.77
Electricity (Line 9)	\$0.00	\$0.00	\$0.00
Insurance (Line 10)	\$435.00	\$435.00	\$435.00
Provincial Property Tax (Line 11)	\$1,140.57	\$1,252.82	\$1,252.82
Provincial Property Tax (Line 12)	\$1,141.14	\$1,243.28	\$1,243.28
Island Waste Management fees (Line 13)	\$213.00	\$219.00	\$219.00
Property Management fees (Line 14)	\$657.96	\$731.30	\$731.30
Maintenance expenses (Line 15)	\$627.42	\$627.42	\$627.42
Capital expenditures (Line 16)	\$287.50	\$541.87	\$541.87
Other (Line 17)	\$510.31	\$510.31	\$510.31
Total operating expenses (Line 18)	\$7,650.60	\$8,198.70	\$8,198.70
Net profit/loss (Line 19)	\$6,975.40	\$7,221.30	
Value of Investment in Property	\$136,625.00	\$136,625.00	
Operating Income (Line 17)	\$6,975.40	\$7,221.30	
Return on Investment (ROI)	5.1%	5.3%	

NOTICE

Right to Appeal

This Order can be appealed to the Island Regulatory and Appeals Commission (the "Commission") by serving a Notice of Appeal with the Commission and every party to this Order within **20 days of this Order**. If a document is sent electronically after 5:00 p.m., it is considered received the next day that is not a holiday. If a document is sent by mail, it is considered served on the third day after mailing.